

Program Summary

Building Renewal

Overview

Building Renewal and New Projects are the 2 main categories in the Capital Outlay budget. The Building Renewal appropriations provides for the major maintenance and repair of state-owned buildings. State owned/occupied buildings in Arizona are grouped into the following 3 building systems: (1) the Arizona Department of Administration (ADOA) consisting of 2,833 structures, (2) the Arizona Department of Transportation (ADOT) consisting of 1,417 structures, and (3) the Arizona Board of Regents (ABOR) consisting of 898 structures. In sum, Building Renewal is responsible for 5,148 structures.

Formula Funding

Building Renewal appropriations are based on the Sherman-Dergis formula. This formula takes into account the replacement value, age, and life-cycle of a building. Under the assumptions used by the Joint Committee on Capital Review (JCCR) this formula typically equates to approximately 1% of the replacement value of the buildings.

Other states use a variety of mechanisms for funding building renewal. A National Association of State Budget Officers survey from 1999 indicated other funding methods included dedicated funding sources, a percentage of building replacement values, a portion of rent charges, or a percentage of the General Fund. In most instances, funding for building renewal competes with other budget issues for funding.

In 1990, the Federal Construction Council, a group of 14 federal agencies, asked the Building Research Board (BRB) to undertake a review of the operation, maintenance, and repair activities of federal facilities. The BRB selected a 9-member committee with broad expertise and extensive experience from the public and private sectors to conduct the study. Based upon the committee's experience and judgment, it agreed that as a rule-of-thumb maintenance and repair funding should range between 2-4% of the current replacement value.

A 2004 article published concerning the Department of Energy (DOE), stated that along with NASA it uses an adaptation of the Department of Defense developed Facilities [Sustainment] Model for measuring facilities maintenance requirements. A committee for DOE concluded that although funding at the rule-of-thumb 2-4% replacement value is used as a performance measurement, it does not form a complete measurement system. In essence, a complete measurement system would need to

maintain more detail about the condition and needs of each building.

Appropriated Funding

Available appropriations are administered separately by the 3 building systems. In the case of ADOA, some individual agencies that have their own funding source administer the building renewal funding. The 3 agencies within the ADOA building system that have their own funding source are the Exposition and State Fair Board, the Game and Fish Department, and the State Lottery Commission. The total appropriation for Building Renewal in FY 2006 is \$8,926,200. This amount represents funding for the ADOA and ADOT building systems. The ABOR building system did not receive funding. *Table 1* details the FY 2006 Building Renewal Funding.

Table 1

FY 2006 Building Renewal

Arizona Department of Administration

Capital Outlay Stabilization Fund @ 15%	\$3,400,000
Exposition and State Fair Fund @ 100%	1,386,800
Game and Fish Fund @ 100%	388,900
State Lottery Fund @ 100%	<u>47,600</u>
Subtotal – ADOA	\$5,223,300

Arizona Department of Transportation

State Highway Fund @ 100%	\$3,627,100
State Aviation Fund @ 100%	<u>75,800</u>
Subtotal – ADOT	\$3,702,900
Total	\$8,926,200

Funding History

Over the last 10 years, the ADOA building system has been appropriated an average of 31% of its recommended formula funding. However, over the last 5 years, the appropriated funding has averaged 20%.

Funding for ADOA building renewal has traditionally come from the Capital Outlay Stabilization Fund (COSF), which receives revenue from agency rent charges. After allocations are made for ADOA operating expenses, the remainder of COSF is usually applied to building renewal. Historically, available COSF monies are insufficient to fully fund the Sherman-Dergis formula. *Table 2* displays the 10-year funding history for Building Renewal in the ADOA building system.

Table 2

**ADOA Building System
Building Renewal
10-Year Funding History**

<u>FY</u>	<u>Formula Requirement</u>	<u>Funding</u>	<u>% of Formula</u>
1997	\$9,800,000	\$4,900,000	50%
1998	12,400,000	6,200,000	50%
1999	13,600,000	13,600,000	100%
2000	14,800,000	3,400,000	23%
2001	16,100,000	3,700,000	23%
2002	18,100,000	6,500,000	35%
2003	18,800,000	3,100,000	15%
2004	19,000,000	3,500,000	19%
2005	19,900,000	3,500,000	18%
2006	<u>22,900,000</u>	<u>3,400,000</u>	<u>15%</u>
Total	\$165,400,000	\$51,800,000	31% Avg.

Over the last 10 years, the ADOT building system has been appropriated an average of 81% of its recommended formula funding. However, over the last 5 years, the appropriated funding has averaged 72%.

Funding for ADOT building renewal comes primarily from the State Highway Fund, but also includes a small component (less than \$100,000) from the State Aviation Fund. Table 3 displays the 10-year funding history for Building Renewal in the ADOT building system.

Table 3

**ADOT Building System
Building Renewal
10-Year Funding History**

<u>FY</u>	<u>Formula Requirement</u>	<u>Funding</u>	<u>% of Formula</u>
1997	\$2,100,000	\$2,100,000	100%
1998	1,400,000	700,000	50%
1999	2,100,000	2,100,000	100%
2000	2,300,000	2,300,000	100%
2001	2,500,000	2,500,000	100%
2002	2,700,000	1,600,000	58%
2003	2,800,000	1,600,000	58%
2004	3,200,000	1,600,000	50%
2005	3,300,000	2,800,000	85%
2006	<u>3,700,000</u>	<u>3,700,000</u>	<u>100%</u>
Total	\$26,100,000	\$21,000,000	81% Avg.

Over the last 10 years, the ABOR building system has been funded at an average of 18% of its recommended formula funding. However, no funding has been appropriated over the last 5 years.

Funding for ABOR building renewal has historically come from the General Fund. Table 4 displays the

10-year funding history for Building Renewal in the ABOR building system.

Table 4

**ABOR Building System
Building Renewal
10-Year Funding History**

<u>FY</u>	<u>Formula Requirement</u>	<u>Funding</u>	<u>% of Formula</u>
1997	\$23,000,000	\$11,500,000	50%
1998	29,600,000	14,800,000	50%
1999	32,000,000	32,000,000	100%
2000	35,200,000	8,100,000	23%
2001	38,300,000	8,800,000	23%
2002	42,300,000	-	0%
2003	45,600,000	-	0%
2004	52,100,000	See note	0%
2005	55,900,000	See note	0%
2006	<u>59,000,000</u>	<u>See note</u>	<u>0%</u>
Total	\$413,000,000	\$75,200,000	18% Avg.

Note: Beginning in FY 2004, the ABOR building system began using long-term financing (bonds) to fund building renewal needs. Since then, the university system has dedicated a total of \$56,700,000 in bond proceeds to fund Building Renewal.

Effects of Funding Shortfall

Each of the 3 state building systems maintains its own method of recording deferred building maintenance.

ADOA

The ADOA received building renewal requests of \$47.5 million for FY 2006 from 9 agencies. FY 2006 building renewal requests significantly exceed the amount that the Building Renewal formula recommends for maintaining the useful life of the buildings. A number of stand alone capital projects requested by agencies could also be categorized as building renewal.

ADOT

Of the 363 buildings inspected by ADOT during FY 2004, 58 were determined to be in poor condition.

ABOR

The University of Arizona estimated deferred maintenance at \$47.3 million as of June 30, 2004.

Arizona State University estimated deferred maintenance at \$65.7 million as of June 30, 2004.

Northern Arizona University estimated deferred maintenance at \$145 million as of June 30, 2004.

In summary, ABOR estimates \$258 million in deferred maintenance.